UCLA 2002-2003 ANNUAL FINANCIAL REPORT
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Using materials similar to those incorporated in UCLA's iconic Italian Romanesque buildings — the brick in much of today's new construction is manufactured by the same company that made those for Royce Hall and Powell Library — campus designers link past and present, creating consistency and a sense of place that flows throughout the university.

CAMPUS AND FINANCIAL HIGHLIGHTS

(dollars in thousands) For Fiscal Years Ended June 30

	2003	2002
Enrollment - Fall Quarter		
Undergraduates	24,899	25,328
Graduates, and Interns and Residents	12,700	12,166
Staff Information		
Full-Time Equivalent		
(includes approximately 5,000 casuals and students)	27,352	26,703
Campus Land Area	419 acres	419 acres
OPERATING AND NONOPERATING REVENUE AND EXPENDITURES:		
Operating Revenue	$ 2,405,248	$ 2,213,593
Nonoperating Revenue	764,529	790,271
	$ 3,169,777	$ 3,003,864
Operating Expense	$ 3,081,629	$ 2,905,388
Nonoperating Expense	36,479	17,000
	$ 3,118,108	$ 2,922,388
Principal Sources of Operating Revenue:		
Student Tuition and Fees	$ 209,404	$ 202,453
Grants and Contracts	737,370	659,447
Sales and Services	1,417,566	1,313,043
Principal Sources of Nonoperating Revenue:		
State Educational Appropriations	$ 630,271	$ 658,649
Principal Operating Expenditures:		
Salaries and Wages	$ 1,650,567	$ 1,585,226
Benefits	287,385	251,453
Supplies and Materials	349,347	282,019
Other Operating Expenditures	488,180	496,665
TOTAL NET ASSETS:		
Total Current Assets	$ 1,255,231	$ 1,285,073
Total Noncurrent Assets	3,212,185	2,667,772
Total Current Liabilities	663,618	631,875
Total Noncurrent Liabilities	617,422	437,919
End of Year Net Assets	3,186,376	2,883,051

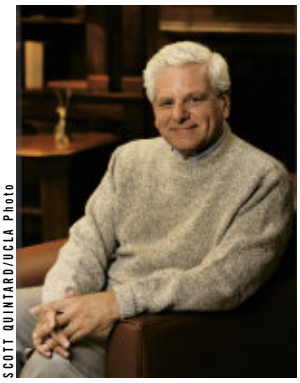
See notes to financial statements.

LETTER FROM CHANCELLOR CARNESALE

The 2002-2003 academic year was one of great accomplishment. Despite the challenges we faced due to the State of California's fiscal crisis, UCLA continued to excel in carrying out its threefold mission of teaching, research, and service for the benefit of our local community and beyond.

Because UCLA is a public university, we have a special obligation to serve our region. To enhance our ongoing community engagement, I initiated the UCLA in LA program and, in fall 2002, I established the Center for Community Partnerships (CCP) as the central element of this vital program. Under the leadership of Professor Franklin J. Gilliam, associate vice chancellor for community partnerships, the CCP instituted its Community Grants Program, which began funding a number of exciting new partnerships between UCLA and organizations throughout Los Angeles County.

UCLA is steadfast in its commitment to compete successfully with the best public and private universities, and our stellar faculty are integral to maintaining that status. Consider Eli Yablonovitch, professor of electrical engineering at the UCLA Henry Samueli School of Engineering and Applied Science. Elected to the prestigious National Academy of Sciences, Professor Yablonovitch also was elected, along with two of his colleagues, to the National Academy of Engineering. Other renowned members of our faculty who received honors in 2002-2003 were geography professor William A. V. Clark, who was among four UCLA scholars elected to the 2003 Class of Fellows of the American Academy of Arts and Sciences, and Dr. Eric W. Fonkalsrud, professor of surgery and emeritus chief of pediatric surgery at the David Geffen School of Medicine at UCLA, who was elected to the Johns Hopkins Society of Scholars.


SCOTT QUINTARD/UCLA Photo

UCLA continues to attract the best and brightest students, who also are key to our remaining competitive. Of the nearly 45,000 applicants for some 4,300 places in the fall 2003 freshman class, almost 19,000 boasted high school grade-point averages of 4.0 or better. Achievement on the part of our applicants is mirrored by the success of our students. For example, three UCLA undergraduates – Diana Libuda, Kayvan Zainabadi, and Heather Coleman – were selected by the Council on Undergraduate Research to present their original research on Capitol Hill in Washington, D.C.

Just as UCLA is delighted by the accolades awarded our students and faculty, we are pleased to honor individuals for their outstanding contributions and achievements. During the 2003 commencement season, we bestowed the UCLA Medal, the University's highest honor, on former Indiana Congressman Lee H. Hamilton and California Congresswoman Lois Capps.

Ensuring that our faculty and students have world-class facilities in which to work, study, and perform also is a top priority for UCLA. Among the many capital projects that commenced in 2002-2003 were the Southwest Housing and the Northwest Campus Housing projects, which together will provide more than 3,300 beds for UCLA students, along with dining, program, and parking spaces. In February, we broke ground for the new California NanoSystems Institute facility. And the state-of-the-art Westwood Replacement Hospital, which will be the new home of the UCLA Medical Center, is quickly taking shape as another I.M. Pei masterpiece.

As state resources decline, alternative sources of support assume even greater importance. To that end, I am happy to report that in fiscal year 2002-2003, UCLA received $278.1 million in private gifts and grants through Campaign UCLA, marking the fifth consecutive year in which UCLA's gift total has surpassed $250 million. This figure brings the total for the Campaign to more than $2.3 billion, which is 96 percent of the Campaign's $2.4 billion overall goal, with a full two years remaining.

The data on the pages that follow offer confirmation of the University's fiscal soundness. These difficult economic times for our state and for the University of California illuminate the need for public-private partnerships, which are vital for the future of UCLA's programs and facilities. Through the generous support and dedication of our alumni and friends, UCLA will remain among the very best universities for generations to come.

Albert Carnesale
Chancellor

LETTER FROM CHANCELLOR CARNESALE

MANAGEMENT'S DISCUSSION AND ANALYSIS

The objective of Management's Discussion and Analysis is to help readers of the Financial Statements of the University of California, Los Angeles (UCLA), better understand the financial position and operating activities for the fiscal year ended June 30, 2003, with selected comparative information for the year ended June 30, 2002. This discussion should be read in conjunction with the Transmittal Letter, the Financial Statements and the Notes to Financial Statements.

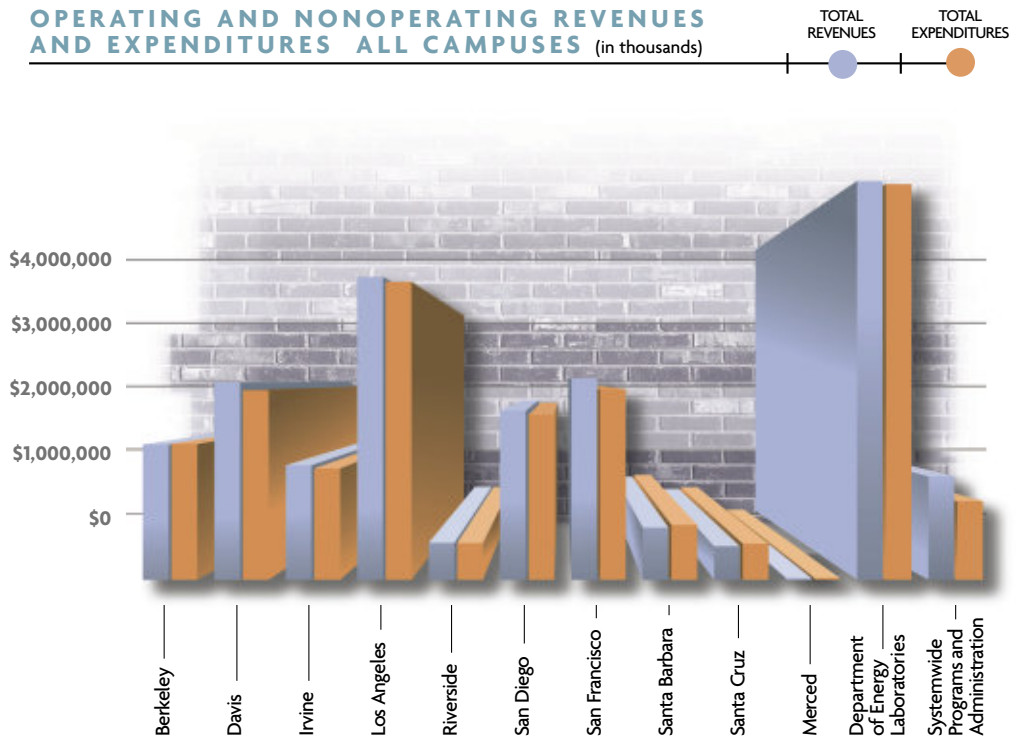
USING THIS ANNUAL REPORT

The accounts of the UCLA campus are consolidated with those of other University of California system campuses, medical centers, research laboratories, and retirement and investment funds and are included in the annual audit performed on those consolidated statements. Management's Discussion and Analysis and the accompanying Financial Statements detail only local campus activity and exclude investments, the campus' portion of pooled debt and the retirement system, which are accounted for on a systemwide basis. This separate UCLA Annual Financial Report, while not separately audited, is prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board.

THE LOS ANGELES CAMPUS OF THE UNIVERSITY OF CALIFORNIA

The University of California (the University) is a public, state-supported institution. The University's financial statements are presented as a discrete component of the state's general-purpose financial statements. Additionally, the University's consolidated financial statements, including 10 campuses, five medical centers, a statewide agricultural extension program, the University of California Retirement System and certain operational results of three major Department of Energy laboratories, are subjected to an independent annual audit.

The following chart reflects the operating and nonoperating revenues and expenditures of the various campuses, along with systemwide programs and administration for the 2002-'03 fiscal year:



The Los Angeles campus of the University of California was founded in 1919 and is financially the largest campus in the 10-campus University of California system, with an annual budget that exceeds $3 billion. The financial statements included in this annual report encompass the following:

Campus - The Los Angeles campus of the University of California spans 419 acres in Westwood and is devoted to undergraduate and graduate scholarship serving more than 37,000 students in the following schools:

COLLEGE OF LETTERS AND SCIENCE

Social Sciences
Humanities
Life Sciences
Physical Sciences
Honors and Undergraduate Programs

PROFESSIONAL SCHOOLS

School of the Arts and Architecture
School of Dentistry
Graduate School of Education and Information Studies
The Henry Samueli School of Engineering and Applied Science
School of Law
Anderson Graduate School of Management
David Geffen School of Medicine
School of Nursing
School of Public Health
School of Public Policy and Social Research
School of Theater, Film and Television

The campus' academic departments and interdepartmental programs schedule more than 2,000 courses each quarter for the benefit of our students. Known for academic excellence, many of UCLA's programs are rated among the best in the nation and some among the best in the world.

The campus' mission also includes research and public service. The UCLA community focuses on challenges in environmental issues, economic and social policy concerns, public education reform, health care costs and medical advances. More than 5,000 research projects are being conducted on campus at any given time. The campus also received $560 million in research funding and ranked sixth, for dollars received, in the last federal sciences and engineering support survey, published for fiscal year 2001.

UCLA employs over 27,000 faculty, administrators and staff (including casual and students) and spent more than $1.9 billion in compensation costs for the fiscal year ended June 30, 2003. UCLA's employees are distinguished for their contributions to education, research and public service. Nobel Prizes have been awarded to five faculty members, in chemistry, physics and medicine (and to alumni in economics and chemistry, with one alumnus receiving the Nobel Peace Prize in 1950). UCLA faculty are also recipients of nine National Medals of Science, 148 Fullbright Awards, 40 Sloan Foundation Fellowships and 271 cumulative Guggenheim Fellowships.

The UCLA Center for the Performing Arts, the Fowler Museum of Cultural History, the UCLA Hammer Museum and the Geffen Playhouse make UCLA the leading arts and cultural center of the West.

The campus' physical plant includes 280 buildings, 21 parking structures, 22 surface parking lots, 13 libraries housing more than 7.9 million volumes, a cogeneration power plant, student housing for more than 7,300 students and more.

Medical Center - The UCLA Medical Center, the UCLA Neuropsychiatric Hospital and Santa Monica Hospital make up the UCLA hospital system, serving people from Los Angeles, across the country and around the world. The medical center is the primary teaching hospital for the David Geffen School of Medicine at UCLA. It has been ranked the "Best Hospital in the West" by U.S. News & World Report for more than a decade. UCLA continues construction of a technologically innovative 525-bed hospital to replace its existing medical center, a 1951 vintage structure weakened in the 1994 Northridge earthquake. The approved budget for the project tops $670 million. Slated to open in 2005, the 10-story structure will combine the operations of the UCLA Medical Center, the UCLA Neuropsychiatric Hospital and Mattel Children's Hospital at UCLA.

ASUCLA - The Associated Students of UCLA (ASUCLA) operates the UCLA store and oversees student activities for the Los Angeles campus pursuant to the Statement of Understanding of ASUCLA's Relationships with the University, dated June 28, 1974. ASUCLA's financial data, representing total revenue of approximately $61.7 million for the fiscal year ended June 30, 2003, have also been included to reflect the total financial activity of the UCLA campus.

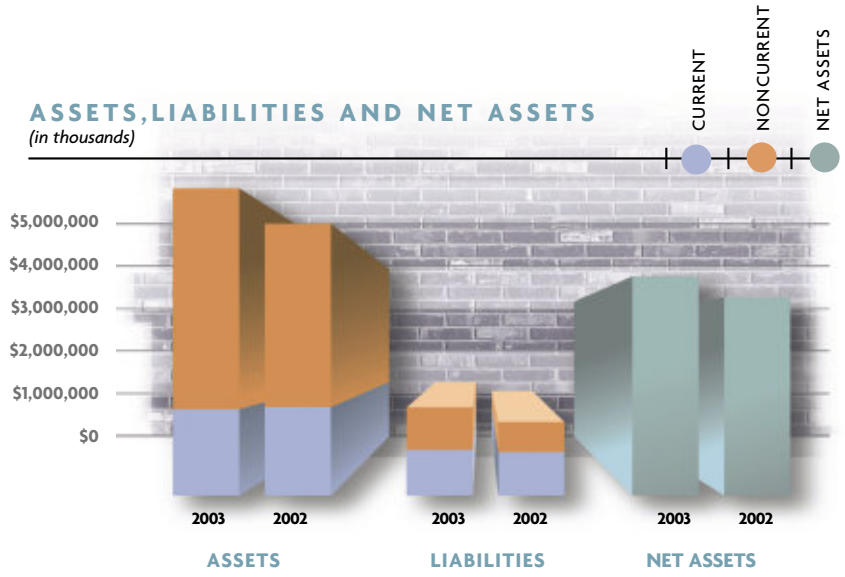
UCLA Foundation - The foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. The financial activities of the separately incorporated foundation are not reflected in the campus' records until such time as gifts are transferred from the foundation to the campus.

An Overview - While UCLA's financial information will be discussed in further detail in the following sections of Management's Discussion and Analysis, the following table depicts the relative enrollment, the number of full-time equivalent employees and expenses by organization to reflect the composition of UCLA.

(dollars in thousands)	Undergraduate	Graduate	Full-Time Equivalent (Includes Student)	Salaries	Other Expenditures	Total Expenditures
Organizations	**Fall Enrollment**		**Employees**	**Operating Expenses**		
College of Letters and Science	20,559	2,777	3,630	$ 211,372	$ 94,588	$ 305,960
School of the Arts and Architecture	821	395	443	23,854	16,280	40,134
School of Dentistry	-	374	354	25,455	15,996	41,451
School of Education and Information Studies	-	882	540	31,273	18,601	49,874
School of Engineering and Applied Science	2,565	1,343	857	51,852	41,288	93,140
School of Law	-	978	198	17,593	8,043	25,636
School of Management	-	1,428	354	30,096	19,140	49,236
School of Medicine	-	2,627	6,722	417,539	252,570	670,109
School of Nursing	44	274	109	6,821	3,026	9,847
School of Public Health	-	706	368	21,656	16,144	37,800
School of Public Policy and Social Research	-	451	161	10,883	4,010	14,893
School of Theater, Film and Television	417	395	247	13,992	6,265	20,257
Continuing Education	-	-	341	29,521	31,166	60,687
Hospitals	-	-	6,645	364,116	469,693	833,809
All Others	-	-	6,383	394,544	263,054	657,598
Sub-total Organizations	24,899	12,700	27,352	1,650,567	1,259,864	2,910,431
Depreciation Expense					163,949	163,949
Other Operational Expenditures					7,249	7,249
Total	24,899	12,700	27,352	$ 1,650,567	$ 1,431,062	$ 3,081,629

THE CAMPUS' FINANCIAL POSITION

The statement of net assets presents the financial position of the campus at the end of the fiscal year. It displays all of the assets and liabilities of the campus accounted for on a local level. The difference between assets and liabilities is net assets, representing a measure of the current financial condition of the campus. At June 30, 2003, the campus' assets were nearly $4.5 billion, liabilities were $1.281 billion and net assets were $3.186 billion, an increase of $303 million from 2002.



The major components of the assets, liabilities and net assets, compared to the prior year, are as follows *(dollars in thousands)*:

	2003	2002	Change
ASSETS			
Cash and investments	$ 799,201	$ 819,224	$ (20,023)
Accounts receivable, net	390,936	395,903	(4,967)
Capital assets, net	2,864,869	2,541,052	323,817
Other assets	412,410	196,666	215,744
Total assets	$ 4,467,416	$ 3,952,845	$ 514,571
LIABILITIES			
Current liabilities	$ 663,618	$ 631,875	$ 31,743
Long-term debt	494,929	319,261	175,668
Other noncurrent liabilities	122,493	118,658	3,835
Total liabilities	$ 1,281,040	$ 1,069,794	$ 211,246
NET ASSETS			
Invested in capital assets, net of related debt	$ 2,478,045	$ 2,208,057	$ 269,988
Restricted:			
Nonexpendable	-	-	-
Expendable	296,004	307,785	(11,871)
Unrestricted	412,327	367,209	45,118
Total net assets	$ 3,186,376	$ 2,883,051	$ 303,325

THE CAMPUS' ASSETS

Long-term investments, the campus' portion of pooled debt and the retirement system are accounted for on a systemwide basis through the Office of the President and are not reflected in UCLA's stand-alone financial statements. UCLA does participate in a temporary investment pool that is administered by the Office of the President, and the balance in this pool is reflected as part of the campus' assets on UCLA's financial statements. These funds are primarily invested in U.S. Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. The amount invested in this short-term investment pool at June 30, 2003, totaled $782 million, a decrease of $14.8 million from the previous year, primarily due to the timing of cash needs from one year to the next.

Accounts receivable decreased to $391 million in 2003, down from $396 million in 2002. Accounts receivable include those from the state and federal governments, those associated with the medical center that are related to patient care, those from investment activity and others, including those related to local and private grants and contracts, and student fees. A significant portion of the decrease was attributed to a gift pledge that was converted to a trust with the Office of the President and reclassified to Investments Held by Trustees.

Capital assets include land, infrastructure, buildings and improvements, equipment, libraries, collections and construction in progress. The original cost of capital assets increased by $450 million to $4.729 billion in 2003, consisting of capital asset acquisitions of $501.9 million partially offset by $51.8 million of capital assets disposed of during the year in the ordinary course of business. Capital asset acquisitions in 2002 were $389 million and asset disposals were $51 million. During 2003, capitalized costs for completed projects included $58.9 million for new buildings and improvements to existing buildings, $83 million for new equipment, $14.2 million for libraries and collections and $6.58 million for land and infrastructure. This includes the completion of the University Village Expansion, supplying graduate-student family housing through the addition of approximately 192 two-bedroom units and 500 parking spaces; the Southwest Campus Staging Building, providing flexible staging space to support campus programs during seismic renovation of its permanent facility; and the Thermal Energy Storage System 3.5 million-gallon concrete tank, and related systems and controls, to hold chilled water produced by the Chiller/Cogeneration Plant. At the end of 2003, the increase from 2002 in the cost of projects under construction, net of the costs of those projects completed and reclassified during 2003 to buildings and improvements or equipment, totaled $339.2 million, bringing construction in progress to $890 million. This includes the Westwood Replacement Hospital (estimated completion 2005-'06), the Santa Monica Replacement Hospital (estimated completion 2006-'07) and the remaining Southwest Campus Housing and parking structure (estimated completion 2004-'05).

Accumulated depreciation increased from $1.738 billion in 2002 to $1.865 billion in 2003. Depreciation expense for the year was $164 million, and the accumulated depreciation on assets sold or disposed of during the year was $36.95 million. The majority of the disposals were for equipment that was fully depreciated or had reached the end of its useful life.

Other assets of $412 million at June 30, 2003 (an increase of $215 million from 2002), included inventories, deferred charges, and notes and mortgages receivable. State lease revenue bonds, issued to cover expenses related to the Westwood and Santa Monica replacement hospitals, accounted for $173 million of the increase.

THE CAMPUS' LIABILITIES

Current liabilities of the campus consist largely of accounts payable to vendors for goods and services, accrued compensation costs due to employees for services performed, deferred revenue and current portions of long-term debt utilized to finance capital assets. The accounts payable for the campus consist of amounts due to vendors for goods and services received for general operation of the campus and medical center and for capital assets. Overall accounts payable showed a slight decrease to $273 million in 2003 from $274 million in 2002. Accrued salaries and benefits showed a minor increase of $1.05 million during 2003.

Capital expenditures are financed by a variety of sources, including University equity contributions, federal and state support, revenue bonds, certificates of participation, bank loans and leases. Commercial paper provides interim financing. The campus' portion of pooled debt is accounted for on a Universitywide basis. Other debt used to finance capital assets, and accounted for locally as noncurrent long-term debt, grew from $319 million at the end of 2002 to $495 million at the end of 2003, an increase of $176 million. The major part of this increase resulted from the October 2002 issuance of $173 million in state lease revenue bonds to finance the Westwood and Santa Monica replacement hospitals. The bonds mature in October 2022.

Other noncurrent liabilities, including federal refundable loans, remained relatively consistent between years.

THE CAMPUS' NET ASSETS

Net assets represent the residual interest in the campus' assets after all liabilities are deducted. During the year, the campus' net assets increased by $303 million, bringing the year-end total to $3.186 billion. Net assets are reported in four major categories: invested in capital assets, net of related debt; restricted nonexpendable; restricted expendable; and unrestricted.

The portion of net assets invested in capital assets, net of accumulated depreciation and related outstanding debt used to finance the acquisition, construction or improvement of these capital assets, grew from $2.208 billion in 2002 to $2.478 billion in 2003. The increase of $270 million closely corresponds to the increase in capital assets and investments held by trustees, less the increase in long-term debt and depreciation of capital assets.

The campus reflects a zero balance in restricted nonexpendable net assets as endowments and charitable remainder trusts are accounted for on a systemwide basis and are excluded from UCLA's financial statements.

Restricted expendable net assets of $296 million are subject to externally imposed restrictions governing their use. These net assets may be spent only in accordance with the restrictions placed upon them and may include support received from gifts, appropriations, grants or contracts for specific programs or capital projects; trustee-held investments; or other third-party receipts. The decrease of $12 million for the year was attributed to a $24 million decline in capital projects' restricted assets, which was offset by a $12 million increase in the area of gifts and appropriations.

Under generally accepted accounting principles, net assets that are not subject to externally imposed restrictions governing their use must be classified as unrestricted for financial reporting purposes. Although unrestricted net assets are not subject to externally imposed restrictions, substantially all of these net assets are designated internally and are allocated for academic and research initiatives or programs, or for capital purposes. As of June 30, 2003, unrestricted net assets were $412 million, an increase of $45 million from the previous year.

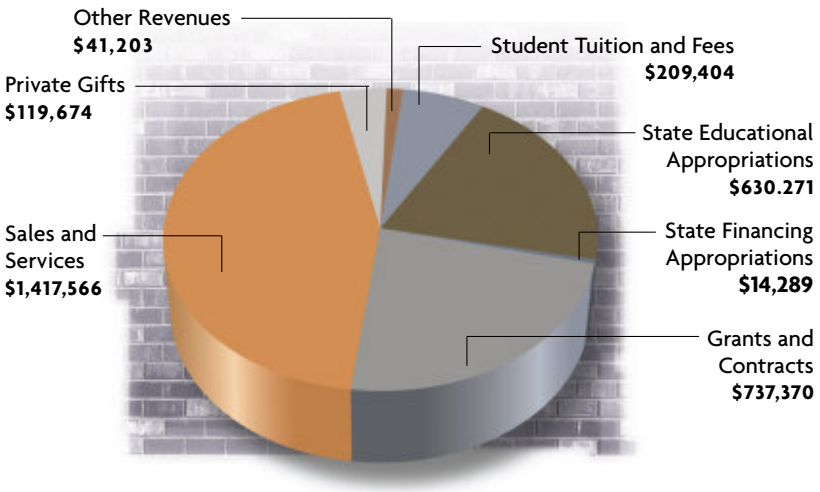
THE CAMPUS' RESULTS OF OPERATIONS

The statement of revenues, expenses and changes in net assets is a presentation of the campus' operating results for the year. It indicates whether the financial condition has improved or deteriorated. In accordance with Governmental Accounting Standards Board (GASB) requirements, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

The following chart displays the categories of both operating and nonoperating revenues that support core activities, as of June 30, 2003:

REVENUES SUPPORTING CORE ACTIVITIES

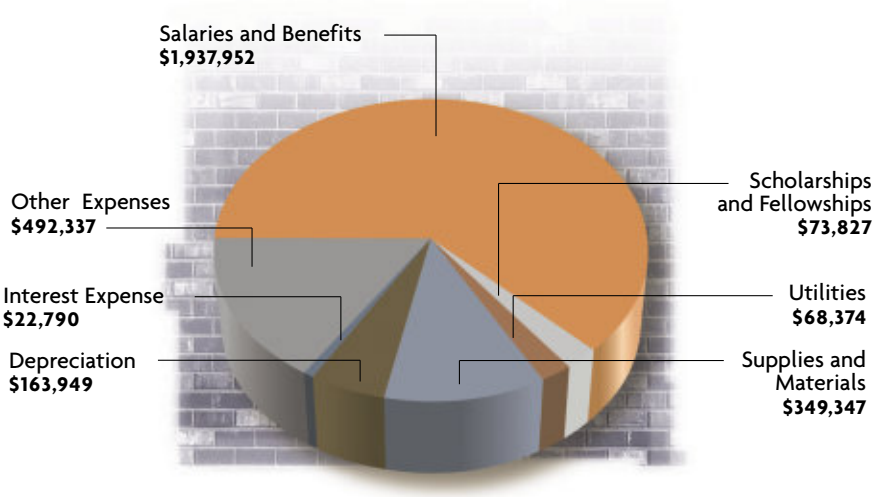
(in thousands)



The following chart displays the portion of operating and nonoperating expenses related to core activities of the campus, as of June 30, 2003:

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

(in thousands)



Below is a summarized comparison of the operating results for 2003 and 2002, arranged in a format that matches the revenue supporting the core activities of UCLA with the expenses associated with core activities *(dollars in thousands)*:

	YEAR ENDED JUNE 30, 2003			YEAR ENDED JUNE 30, 2002			
	Operating	Nonoperating	Total	Operating	Nonoperating	Total	Change
REVENUES							
Student tuition and fees, net	$ 209,404	$ -	$ 209,404	$ 202,453	$ -	$ 202,453	$ 6,951
State educational appropriations	-	630,271	630,271	-	658,649	658,649	(28,378)
State financing appropriations	-	14,289	14,289	-	13,269	13,269	1,020
Grants and contracts	737,370	-	737,370	659,447	-	659,447	77,923
Sales and services, net	1,417,566	-	1,417,566	1,313,043	-	1,313,043	104,523
Private gifts	-	119,674	119,674	-	117,027	117,027	2,647
Other revenues	40,908	295	41,203	38,650	1,326	39,976	1,227
Revenues supporting core activities	2,405,248	764,529	3,169,777	2,213,593	790,271	3,003,864	165,913
EXPENSES							
Salaries and benefits	1,937,952	-	1,937,952	1,836,679	-	1,836,679	101,273
Scholarships and fellowships	73,827	-	73,827	69,368	-	69,368	4,459
Utilities	68,374	-	68,374	68,743	-	68,743	(369)
Supplies and materials	349,347	-	349,347	282,019	-	282,019	67,328
Depreciation	163,949	-	163,949	151,914	-	151,914	12,035
Interest expense	-	22,790	22,790	-	16,848	16,848	5,942
Other expenses	488,180	4,157	492,337	496,665	152	496,817	(4,480)
Expenses associated with core activites	3,081,629	26,947	3,108,576	2,905,388	17,000	2,922,388	186,188
Income (loss) from core activities	(676,381)	737,582	61,201	(691,795)	773,271	81,476	(20,275)
Transfers to (from) core activites	-	(32,882)	(32,882)	-	2,499	2,499	(35,381)
Net income (loss) from core activities	$ (676,381)	$ 704,700	28,319	$ (691,795)	$ 775,770	83,975	(55,656)
OTHER NONOPERATING ACTIVITIES							
Net appreciation in fair value of investments			(92)			88	(180)
Loss on disposal of capital assets, net of proceeds			(9,440)			(3,049)	(6,391)
Income (loss) before other changes in net assets			18,787			81,014	(62,227)
OTHER CHANGES IN NET ASSETS							
State capital appropriations			9,382			41,868	(32,486)
Capital gifts and grants			221,396			118,542	102,854
Transfers to (from) capital accounts			53,762			29,406	24,356
Increase in net assets			303,327			270,830	70,368
NET ASSETS							
Beginning of year			2,883,051			2,612,221	270,830
End of year			$ 3,186,378			$ 2,883,051	$ 303,327

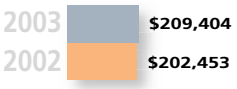
REVENUES ASSOCIATED WITH CORE ACTIVITIES

Revenues to support UCLA's core activities, including those classified as nonoperating revenues, grew from $3 billion in 2002 to $3.17 billion in 2003, an increase of $165.9 million. The campus has very diversified sources of revenue. State of California educational appropriations, in conjunction with student tuition and fees, are the core components that support the instructional mission of UCLA. Grants and contracts provide opportunities for undergraduate and graduate students to participate in basic research alongside some of the most prominent researchers in the country. Gifts to the campus allow crucial flexibility to faculty for support of their fundamental activities or new academic initiatives. Sales and service revenue includes the medical center, educational activities and auxiliary enterprises such as student housing, food services operations and parking.

Categories of revenues, as well as activity trends, are described below:

Revenues (in thousands)

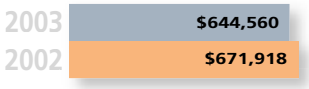
	2003	Percent of Total	2002	Percent of Total	Variance	Change Over Prior Year
Student tuition and fees, net	$ 209,404	6.61%	$ 202,453	6.74%	$ 6,951	3.4%
State appropriations	644,560	20.33%	671,918	22.37%	(27,358)	-4.1%
Grants and contracts	737,370	23.26%	659,447	21.95%	77,923	11.8%
Sales and services, net	1,417,566	44.72%	1,313,043	43.71%	104,523	8.0%
Private gifts	119,674	3.78%	117,027	3.90%	2,647	2.3%
Other operating revenues, net	41,203	1.30%	39,976	1.33%	1,227	3.1%
Total	$ 3,169,777	100.00%	$ 3,003,864	100.00%	$ 165,913	5.5%



Student Tuition and Fees revenue, net of scholarship allowances, grew by $6.95 million to $209.4 million in 2003, a 3.4% increase, up from $202.5 million in 2002. The increase consists of $13.2 million from the rise in student fees, a direct result of the state budget cuts to the University's general funds, offset by a $6.2 million increase in student financial aid distribution. To avoid reducing instructional programs, The Regents imposed a $135 increase in mandatory systemwide student fees for spring 2003, the first such fee increase in eight years.

State Appropriations (in thousands)

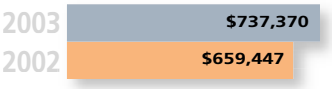
	2003	2002	Variance	Change Over Prior Year
State educational appropriations	$ 630,271	$ 658,649	$ (28,378)	-4.3%
State financing appropriations	14,289	13,269	1,020	7.7%
Total	$ 644,560	$ 671,918	$ (27,358)	-4.1%



State Appropriations consists of two components, educational and financing. Educational appropriations from the State of California decreased by $28.4 million to $630.3 million in 2003, a drop of 4.3%. This decline in state support was the result of a major state budget deficit that necessitated budget cuts to the University. As part of the state budget reduction, the public service K-12 Teacher Development Program, which received $21.7 million in 2002, did not receive the expected state support for 2003, and, in fact, returned some of the prior year's funds, resulting in a $22.2 million overall reduction in this program from 2002 to 2003. Other areas affected by the remaining $6.2 million cut included administration, libraries, other public service programs, student services and certain state-funded research programs.

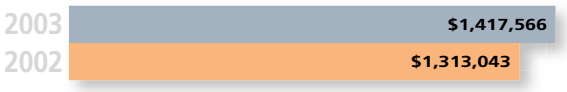
State financing appropriations are directly related to the required rental payments under lease-purchase agreements with the State of California, which increased in 2003 by slightly more than $1 million to $14.3 million.

Grants and Contracts (in thousands)	2003	2002	Variance	Change Over Prior Year
Federal	$ 521,985	$ 452,353	$ 69,632	15.4%
State	54,804	54,939	(135)	-0.2%
Private	131,532	123,147	8,385	6.8%
Local	29,049	29,008	41	0.1%
Total	$ 737,370	$ 659,447	$ 77,923	11.8%

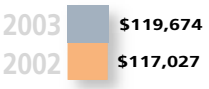


Grants and Contracts revenue from federal, state, private and local sources increased by $78 million during 2003 to $737 million. Federal grant and contract revenue, including facilities and administration cost recovery of $114 million, direct expenditures of $390 million and receipts in excess of expenditures of $17 million, grew by $69.6 million to $522 million. This revenue represents support from a variety of agencies: Department of Health and Human Services, $316 million; National Science Foundation, $45 million; Department of Education, $11.6 million; Department of Defense, $9.7 million; National Aeronautics and Space Administration, $12 million; Department of Energy, $21 million; and other federal agencies, $106.7 million. State contracts decreased slightly from $54.9 million in 2002 to $54.8 million in 2003. Private contract and grant funds increased by $8.4 million to $131.5 million, whereas local contracts and grants remained relatively constant at $29 million.

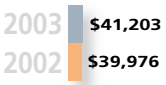
Sales and Services (in thousands)	2003	2002	Variance	Change Over Prior Year
Medical centers	$ 839,530	$ 781,102	$ 58,428	7.5%
Educational activities	351,672	317,188	34,484	10.9%
Auxiliary enterprises, net	226,364	214,753	11,611	5.4%
Total	$ 1,417,566	$ 1,313,043	$ 104,523	8.0%



Sales and Services revenue represents revenue from medical centers, educational activities and auxiliary enterprises, net of scholarship allowance. This revenue increased to $1.418 billion in 2003 from $1.313 billion in 2002, for a total increase of $104.5 million. More than half of this increase is due to medical center revenue growth of $58 million over the prior year to $839.5 million. The revenue growth is primarily due to a combination of rate increases and an increase in patient activity. Sales from educational activities, primarily physicians' professional fees, grew by $34 million to a total of $351.7 million. Sales from auxiliary enterprises also increased, from $215 million in 2002 to $226 million in 2003, mainly as a result of the completion and occupancy of De Neve Plaza and University Village, the participation by Intercollegiate Athletics teams in 2002-'03 bowl games, and increased rates for parking and transportation services.



Private Gifts, mainly restricted as to use, increased 2.3% over 2002 to $119.7 million in 2003. While the nation's economy and the decline in equity markets is having a substantial effect on charitable giving, UCLA has experienced continued success in acquiring private gifts through the ongoing efforts of its fundraising campaign. In addition to private gifts for operating purposes, gifts were also received for capital purposes; these are recorded as capital gifts and grants.



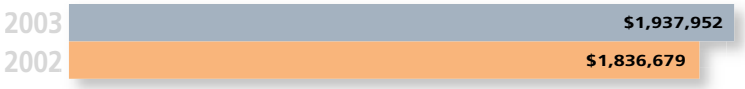
Other Operating Revenues, net of scholarship and other allowances, which totaled $41.2 million for 2003, come from a variety of sources, including the Arthur Ashe Student Health and Wellness Center, UCLA Performing Arts, telecommunications, and parking fines and forfeitures. These revenues were up slightly from the amount received for 2002.

EXPENSES ASSOCIATED WITH CORE ACTIVITIES

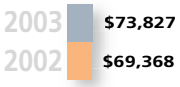
UCLA's expenses associated with core activities for 2003, including those classified as nonoperating expenses, were $3.109 billion, up $186 million from $2.922 billion in 2002. Almost two-thirds, 62%, of UCLA's core expenses are related to salaries and benefits of academic and administrative staff working on behalf of the University. Other expenses are related to goods and services used for operation of the core activities of the campus, depreciation of capital assets, and scholarship and fellowship payments to students.

Categories of expenses, as well as activity trends, are described below:

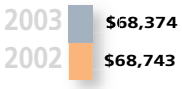
Expenses (in thousands)	2003	Percent of Total	2002	Percent of Total	Variance	Change Over Prior Year
Salaries and benefits	$ 1,937,952	62.34%	$ 1,836,679	62.85%	$ 101,273	5.5%
Scholarships and fellowships	73,827	2.37%	69,368	2.37%	4,459	6.4%
Utilities	68,374	2.20%	68,743	2.35%	(369)	-0.5%
Supplies and materials	349,347	11.24%	282,019	9.65%	67,328	23.9%
Depreciation	163,949	5.27%	151,914	5.20%	12,035	7.9%
Interest expense	22,790	0.73%	16,848	0.58%	5,942	35.3%
Other expenses, net	492,337	15.84%	496,817	17.00%	(4,480)	-0.9%
Total	$ 3,108,576	100.00%	$ 2,922,388	100.00%	$ 186,188	6.4%



Salaries and Benefits grew by $101 million to $1.938 billion in 2003 ($1.651 billion in salaries and wages and $287 million in benefits), an increase of 5.5% from 2002. There are nearly 37,300 employees filling a total of approximately 27,300 full-time equivalent positions. Academic wages increased by $24.9 million as a result of contract and grant activity and the addition of new researchers. Staff wages increased by $40 million, with a significant increase in medical center wages, including an $11.5 million rise in nursing administration costs due to union-negotiated wage increases of 7% to 9.2%.

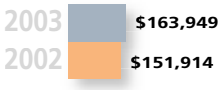


Scholarships and Fellowships, payments of financial aid made directly to students and reported as an operating expense, were $73.8 million in 2003, just 6% more than 2002. Scholarship allowances, financial aid and fee waivers by the campus, or third-party payments to the University on behalf of students, also increased in 2003 by 8.7% to $70.3 million. However, scholarship allowances are reported as an offset to revenue, not as an operating expense. On a combined basis, financial aid to students in all forms grew from $134 million in 2002 to $144 million in 2003, an increase of $10 million, or 7.5%.

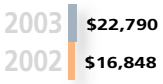


Utility costs showed a slight 0.5% decrease from the prior year to $68.4 million, in part due to energy saving measures already adopted by the University. These measures included re-lamping the campus with more efficient lighting, and construction of the Thermal Energy Facility. In addition, the University has created an Energy Conservation Task Group to develop further recommendations for reducing energy consumption.

Supplies and Materials, net of elimination of capitalization, rose 23.9% to $349 million in 2003, an increase of $67 million over 2002. This increase is due to the combined impact of a $10.8 million, or 2.7%, increase in supplies and materials expenditures over 2002 and a $56.5 million, or 49.1%, reduction in capitalized expenditures eliminations for the same period. The reduction in capitalized expenditures eliminations during 2003 reflects reduced spending for current fund capital equipment purchases and the fact that a substantial amount of hospital equipment purchases is being recorded directly as plant assets through capital lease borrowings.



Depreciation and Amortization expenses increased from $152 million in 2002 to $164 million in 2003. The $12 million increase is mainly due to first-time recording for depreciation of software less than $10 million, a result of the implementation of GASB 34/35.



Interest Expense, reported as a nonoperating expense, rose to $22.8 million in 2003, a $5.9 million increase over 2002. The increase relates directly to interest incurred on the State Public Works Board issuance of $173 million in lease revenue bonds to finance the Westwood and Santa Monica replacement hospitals.

Other Expenses Supporting Core Activities remained relatively constant, with a minor 0.9% decrease of $4.49 million, bringing the 2003 total to $492 million.

OTHER NONOPERATING ACTIVITIES

UCLA's nonoperating activities that are generally non-cash transactions, and therefore not available to be used to support operating expenses, include the net appreciation or depreciation in the fair value of investments and the gain or loss on the disposal of capital assets.

Since the majority of investment activity is recorded at a systemwide level, the appreciation and depreciation of the fair market value investments is not significant from year to year.

Routine disposals and write-offs of capital assets resulted in an increase to expense totaling $9.4 million in 2003, compared with $3.05 million in 2002. The major portion of the expense for 2003 was related to disposal of capital equipment. Useful lives of equipment are assigned at the time of acquisition based on an established useful life table; equipment is fully depreciated when the accumulated depreciation equals the acquisition value. Equipment is written off at the time of disposal.

OTHER CHANGES IN NET ASSETS

Similar to the other nonoperating activities discussed above, other changes in net assets are generally not available to support UCLA's operating expenses in the current year. State capital appropriations and capital gifts and grants may only be used for the purchase or construction of the specified capital assets.

UCLA's enrollment growth requires new facilities, in addition to continuing needs for renewal, modernization and seismic correction of existing facilities. Capital appropriations from the state decreased by $32.49 million, from $41.87 million in 2002 to $9.38 million in 2003. This decrease reflects the prior year's final bond obligation from state capital appropriation funds approved in 1998. New funding for the replacement hospitals came in the form of state lease revenue bonds. Capital gifts and grants were $221.4 million in 2003, up from $118.54 million in 2002. The $102 million increase is mainly attributed to $84.3 million in additional funding from the Federal Emergency Management Agency (FEMA) toward the seismic repair, renovation and replacement of structures damaged in the 1994 earthquake.

Campus transfers totaled $20 million for 2003, a decrease of $11 million from 2002. The majority of the activity can be associated with indirect cost recovery, intercampus transfers and retirement of indebtedness.

The indirect cost recovery from facilities and administrative costs of contract and grant activity totaled $133.57 million, an increase of $16.26 million over the prior year. These funds are transferred to the Office of the President as part of the closing processes and then reallocated at a designated rate to the campus in the new year. The University has an agreement with the state regarding the disbursal of federal reimbursement. Approximately 20% of the reimbursement accrues directly to the University for costs related to federal contract and grant activity, and this is the source of the University's off-the-top overhead funds. The remaining 80% of the federal reimbursement is used in two ways: 55% is budgeted as University general funds and is used, along with state general funds, to help fund the University's budget. The remaining 45% is the source of the University Opportunity Fund.

Intercampus transfers totaled $174.5 million for 2003 , a decreased of $12 million from 2002. This includes the allotment of indirect cost funds from the prior year's recovery, transfers of funding between campuses for related projects and short-term investment income.

Retirement of indebtness fund transfers totaled $41.176 million for 2003, a decreased of $27.3 million from 2002. This decrease resulted from the refinancing of commercial paper with long-term debt. The commercial paper was initially used for interim financing on the Santa Monica Hospital purchase.

THE CAMPUS' CASH FLOWS

The statement of cash flows presents the significant sources and uses of cash. UCLA's cash, primarily held in demand deposit accounts, is minimized by sweeping available cash balances into investment accounts managed by the Office of the President on a daily basis.

A summary comparison of cash flows for 2003 and 2002 is as follows *(dollars in thousands)*:

	2003	2002	CHANGE
Cash received from operations	$ 2,366,190	$ 2,112,407	$ 253,783
Cash payments for operations	(2,878,437)	(2,567,622)	(310,815)
Net cash used by operating activities	(512,247)	(455,215)	(57,032)
Net cash provided by non-capital financing activities	742,856	776,647	(33,791)
Net cash used by capital and related financing activities	(271,557)	(193,718)	(77,839)
Net cash provided by investing activities	45	9,508	(9,463)
Intercampus and transfer activities	20,880	31,905	(11,025)
Net (decrease) increase in cash	(20,023)	169,127	(189,150)
Cash, beginning of year	819,194	650,067	169,127
Cash, end of year	$ 799,171	$ 819,194	$ (20,023)

UCLA's cash in demand deposit accounts decreased by $20 million, from $819 million in 2002 to $799 million in 2003. More than $512 million was used for operating activities, offset by $743 million in cash provided by non-capital financing activities. Non-capital financing activities, as defined by the GASB, include state educational appropriations and gifts received for other than capital purposes that are used to support operational activities.

Cash of $271.56 million was used for capital and related financing activities, primarily for purchases of capital assets and principal and interest payments, partially offset by sources that include state and federal (FEMA) capital appropriations, gifts for capital purposes and new external financing.

Cash received from investing activities showed a decrease of $9.46 million during 2003. This variance resulted from the prior year's sale of investment real estate; there was no sale of investment real estate during 2003.

LOOKING FORWARD

The campus' current financial position is strong. The campus', and the University's, quality is a hallmark for the State of California and the nation. The excellence of its programs attracts the best students; leverages hundreds of millions of dollars in state, federal and private funding; and promotes discovery of new knowledge that fuels economic growth.

While the long-term prospects for the State of California look strong, there are major short-term financial problems. The 2003-'04 budget does provide new funding for additional UC students for the year. That new money, however, will only fund the instruction of additional UC students; it will not backfill other program cuts. In sum, the University's net state-funded budget in 2003-'04 will be 8% less than its 2002-'03 final budget.

The final budget for 2003-'04 also specifies that the 2004-'05 budget will provide no state funding for student enrollment growth, employee salary increases or other inflationary cost increases at UC. This language is consistent with a letter from the state Department of Finance that such funding would be unavailable in 2004-'05. Recognizing the looming caps on enrollment growth imposed by the 2004-'05 budget restrictions, UC campuses will be urged to keep 2003-'04 enrollments down as much as possible in order to lessen the impacts in 2004-'05.

To cope with unallocated budget cuts while minimizing the impact on the student instructional program for 2003-'04, the University will have to increase the mandatory systemwide student fees by 30% above the current level, which already reflects the $405 annualized increase that was adopted beginning with the spring 2003 term. Additional increases will include a 30% increase in fees for most professional school students and a 10% increase in nonresident tuition. These fees increases will generate approximately $44 million in new fee revenue.

In other areas, the campus remains highly competitive in terms of attracting federal grant and contract revenue, with fluctuations in UCLA's share closely paralleling trends in budgets of federal research-granting agencies. The majority of UCLA's research revenue comes from the Department of Health and Human Services. Other significant research funding is awarded from the Department of Education, the National Science Foundation, the Department of Energy and the Department of Veterans Affairs. A steady growth in federal research revenue has occurred over the past several years. The outcome of the federal budget process has important ramifications for the campus' research budget.

The medical centers face financial challenges in a price-sensitive managed care environment. The demand for health care services and the cost of providing them are increasing significantly, while revenues to support these services are diminishing. In addition to cost increases faced by hospitals across the state, such as rising salary and benefit costs, UCLA's medical centers also face additional costs associated with new technologies, biomedical research, the education and training of health care professionals and the care for a disproportionate share of the medically underserved in California. In recent years, federal legislation has been enacted to slow future rate increases in Medicare and Medicaid and reduce medical education and disproportionate-share funding. UCLA will continue expenditure of its more than $670 million approved budget for construction of the new Westwood hospital to replace its existing medical center and combine the operations of the UCLA Neuropsychiatric Hospital and Mattel Children's Hospital. The new facility is slated to open in 2005.

The continuing financial success of the medical centers is dependent on dedicated and sustained financial support for medical education and care for the poor. Payment strategies must recognize the need to maintain an operating margin sufficient to cover debt, provide working capital, purchase state-of-the-art equipment and invest in infrastructure and program expansion.

The UCLA hospital system continues to pursue short- and long-term solutions to address financial challenges at both the state and federal level in order to remain competitive in its market.

UCLA's remarkable achievement in recent years in obtaining private support and in finalizing its significant fundraising campaign is a testament to its distinction as a leader in philanthropy among the nation's colleges and universities and the high regard in which the campus and the University are held. The level of private support underscores the continued confidence among donors in the quality of UCLA's programs and the importance of its mission. At the same time, private support is beginning to reflect the changes in the economy and financial markets, the effect of which is likely to be more pronounced in the coming years.

Affordable, accessible student housing will be required in order to satisfy the demand associated with current and anticipated enrollment growth. Current housing projects have projected an additional 4,000 bed spaces by 2008. Phase I should open in fall 2004 with 2,152 bed spaces, with an additional 1,222 bed spaces to be available in 2005. Phase II will add 618 more bed spaces, to be available in 2008.

Since a balanced array of many categories of facilities are needed to meet its education, research and public service goals, UCLA continues to assess its long-term capital requirements. Support for the campus' capital program will continue to be provided from a combination of sources, including the State of California, external financing, gifts and other sources.

There also are plans for additional capital projects that are not considered to be state supportable. This is a continuing process that is amended as required to include projects when gifts or other supplemental resources are obtained or financing plans are developed.

CAUTIONARY NOTE REGARDING FORWARD-LOOKING STATEMENTS

Certain information provided by UCLA, including written statements (as outlined above) or oral statements made by its representatives, may contain forward-looking statements as defined in the Private Securities Litigation Reform Act of 1995. All statements, other than statements of historical facts, which address activities, events or developments that UCLA expects or anticipates will or may occur in the future, contain forward-looking information.

In reviewing such information, it should be kept in mind that actual results may differ materially from those projected or suggested in such forward-looking information. This forward-looking information is based upon various factors and was derived using various assumptions. UCLA does not undertake to update forward-looking information contained in this report or elsewhere to reflect actual results, changes in assumptions or changes in other factors affecting such forward-looking information.

Marking the fifth consecutive year in which UCLA's gift total has topped $250 million, Campaign UCLA received more than $278 million in private gifts and grants during fiscal year 2002-2003.

This figure reflects the continuation of successful fundraising performance despite the significant downturn in the local and national economies. It brings the total for the Campaign over the $2.3 billion mark, equaling 96 percent of the $2.4 billion overall goal, after only 81 percent of the Campaign period, which will conclude in 2005.

Although it appears the Campaign's overall goal will be attained before its target completion date, there are still several priorities that remain unfulfilled. Chief among these are graduate fellowship support and funds for recruiting and retaining top quality faculty, both of which are imperative for UCLA to retain a competitive advantage among other top research institutions nationwide.

In addition to supporting core programs campus-wide, Campaign priorities also include the advancement of a number of capital projects, such as the UCLA Replacement Hospital and new and refurbished facilities for the UCLA College.

Campaign resources to date have supported the academic program and strengthened the University by accelerating landmark research, expanding student support, enhancing interdisciplinary programs and enabling capital improvements. As the Campaign enters its final phase, efforts will focus on attaining those key goals that will secure UCLA's position as a leader in American higher education.

financial statements

TRANSMITTAL LETTER

The accompanying Financial Statements reflect the financial position and the results of operations of the University of California, Los Angeles (UCLA), for the fiscal year ended June 30, 2003.

The UCLA Financial Statements are not individually audited, but rather are audited as part of the Consolidated Annual Financial Report of the University of California by the firm of PricewaterhouseCoopers, whose report is transmitted to The Regents.

The accompanying Financial Statements and Management's Discussion and Analysis detail only local campus activity. This separate UCLA Annual Financial Report, while not separately audited, is also prepared from the official University of California records and accounts, which are maintained in accordance with the standards prescribed by the Governmental Accounting Standards Board.

Respectfully submitted,

Susan K. Abeles

Susan K. Abeles
Assistant Vice Chancellor/Controller
Corporate Financial Services

UNIVERSITY OF CALIFORNIA, LOS ANGELES

STATEMENT OF NET ASSETS

(dollars in thousands) For Fiscal Year Ended June 30, 2003, with comparative totals for 2002

	2003	2002
ASSETS		
Cash	$ 16,701	$ 21,930
Short-term investments	782,470	797,264
Investment of cash collateral	-	-
Investments held by trustees	30	30
Accounts receivable, net	390,936	395,903
Current portion of notes and mortgages receivable, net	10,330	18,910
Inventories	26,556	25,969
Other current assets	28,208	25,067
Current assets	1,255,231	1,285,073
Investments	-	-
Investments held by trustees	189,239	18,654
Notes receivable	54,326	44,928
Notes and mortgages receivable, net	13,191	16,077
Land, buildings, equipment, libraries and collections, net	2,864,869	2,541,052
Other noncurrent assets	90,560	47,061
Noncurrent assets	3,212,185	2,667,772
Total assets	$ 4,467,416	$ 3,952,845
LIABILITIES		
Accounts payable	$ 272,590	$ 273,624
Accrued salaries and benefits	154,571	153,521
Deferred revenue	143,634	135,737
Current portion of long-term debt	24,117	13,763
Funds held for others	-	1,510
Other current liabilities	68,706	53,720
Current liabilities	663,618	631,875
Federal refundable loans	44,011	44,773
Long-term debt	494,929	319,261
Other noncurrent liabilities	78,482	73,885
Noncurrent liabilities	617,422	437,919
Total liabilities	$ 1,281,040	$ 1,069,794
NET ASSETS		
Invested in capital assets, net of related debt	$ 2,478,045	$ 2,208,057
Restricted:		
Nonexpendable:		
Endowments	-	-
Annuity and life income funds	-	-
Expendable:		
Endowment	-	-
Grants and contracts	-	-
Gifts	123,927	114,271
Loans	47,190	48,076
Capital projects	42,648	67,518
Debt service	32,374	31,845
Appropriations	6,325	5,979
Other	43,540	40,096
Unrestricted	412,327	367,209
Total net assets	$ 3,186,376	$ 2,883,051

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, LOS ANGELES

STATEMENT OF REVENUES, EXPENSES AND CHANGES IN NET ASSETS

(dollars in thousands) For Fiscal Year Ended June 30, 2003, with comparative totals for 2002

	2003	2002
OPERATING REVENUES		
Student tuition and fees, net	$ 209,404	$ 202,453
Grants and contracts:		
Federal	521,985	452,353
State	54,804	54,939
Private	131,532	123,147
Local	29,049	29,008
Sales and services:		
Medical centers	839,530	781,102
Educational activites	351,672	317,188
Auxiliary enterprises, net	226,364	214,753
Other operating revenues, net	40,908	38,650
Total operating revenues	2,405,248	2,213,593
OPERATING EXPENSES		
Salaries and wages	1,650,567	1,585,226
Benefits	287,385	251,453
Scholarships and fellowships	73,827	69,368
Utilities	68,374	68,743
Supplies and materials	349,347	282,019
Depreciation	163,949	151,914
Other operating expenses	488,180	496,665
Total operating expenses	3,081,629	2,905,388
Operating loss	(676,381)	(691,795)
NONOPERATING REVENUES (EXPENSES)		
State educational appropriations	630,271	658,649
State financing appropriations	14,289	13,269
Private gifts	119,674	117,027
Investment income	-	-
Other	295	1,326
Net depreciation in fair value of investments	(92)	88
Interest expense	(22,790)	(16,848)
Loss on disposal of capital assets, net	(9,440)	(3,049)
Other nonoperating revenues (expenses)	(4,157)	(152)
Net nonoperating revenues (expenses)	728,050	770,310
Income (loss) before other change net assets	51,669	78,515
OTHER CHANGES IN NET ASSETS		
State capital appropriations	9,382	41,868
Capital gifts and grants	221,396	118,542
Transfers	20,880	31,905
Increase in net assets	303,327	270,830
NET ASSETS		
Net assets, beginning of year	2,883,051	2,612,221
Net assets, end of year	$ 3,186,378	$ 2,883,051

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, LOS ANGELES

TRANSFERS

(dollars in thousands) For Fiscal Year Ended June 30, 2003, with comparative totals for 2002

	2003	2002
Current (to)/from retirement of indebtedness	$ (1)	$ (2)
Current:		
Intrafund	-	-
Intercampus	174,490	186,480
Interfund	(46,273)	(41,072)
Net revenue of bonds and other indebtedness programs	(27,843)	(24,517)
Indirect cost recovery	(447)	(1,775)
Net adjustments	-	-
Unexpended plant	94,697	97,911
Retirement of indebtedness	(41,176)	(68,487)
Investment in plant:		
Intrafund transfer assets	(420)	(21)
Intrafund transfer depreciation	662	5
Renewals and replacements	-	-
Loan	761	689
Indirect cost recovery	(133,570)	(117,306)
Total transfers	$ 20,880	$ 31,905

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, LOS ANGELES

STATEMENT OF CASH FLOWS

(dollars in thousands) For Fiscal Year Ended June 30, 2003, with comparative totals for 2002

	2003	2002
CASH FLOWS FOR OPERATING ACTIVITIES		
Student tuition and fees, net	$ 208,623	$ 204,021
Grants and contracts	732,277	642,742
Receipts from sales and services of:		
Medical centers	842,595	729,804
Educational activities	354,641	316,834
Auxiliary enterprises, net	228,054	216,679
Payments to employees	(1,639,439)	(1,511,836)
Payments to suppliers and utilities	(862,791)	(725,841)
Payments for benefits	(288,467)	(246,180)
Payments for scholarships and fellowships	(73,827)	(69,368)
Other receipts	(13,913)	(12,070)
Net cash used by operating activities	(512,247)	(455,215)
CASH FLOWS FROM NONCAPITAL FINANCING ACTIVITIES		
State educational appropriations	630,271	658,649
Gifts received for other than capital purposes:		
Private gifts for endowment purposes	-	-
Other private gifts	118,251	117,171
Other receipts (payments)	(5,666)	827
Net cash provided by noncapital financing activities	742,856	776,647
CASH FLOWS FROM CAPITAL AND RELATED FINANCING ACTIVITIES		
Commercial paper financing:		
Proceeds from issuance	-	-
Payments of principal	-	-
Interest paid	-	-
State capital appropriations	21,002	26,448
State financing appropriations	10,836	13,269
Capital gifts and grants	239,471	149,459
Proceeds from debt issuance	8,306	36,103
Proceeds from the sale of capital assets	5,382	7,105
Purchases of capital assets	(519,511)	(396,017)
Principal paid on debt and capital leases	(19,001)	(12,819)
Interest paid on debt and capital leases	(18,042)	(17,266)
Net cash used by capital and related financing activities	(271,557)	(193,718)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sales and maturities of investments:		
Short-term investment pool	-	-
Other investments	-	8,597
Purchase of investments:		
Short-term investment pool	-	-
Other investments	-	-
Investment income, net of investment expenses	45	911
Net cash provided by investing activities	45	9,508
Transfers	20,880	31,905
Net (decrease) increase in cash	(20,023)	169,127
Cash, beginning of year	819,194	650,067
Cash, end of year	$ 799,171	$ 819,194

See accompanying Notes to Financial Statements.

UNIVERSITY OF CALIFORNIA, LOS ANGELES

NOTES TO FINANCIAL STATEMENTS

Years ended June 30, 2003 and 2002

ORGANIZATION/FINANCIAL REPORTING ENTITY

The University of California (the University) was founded in 1868 as a public, state-supported institution. The California State Constitution provides that the University shall be a public trust administered by the corporation "The Regents of the University of California," which is vested with full powers of organization and government, subject only to such legislative control necessary to ensure the security of its funds and compliance with certain statutory and administrative requirements. The majority of the 26-member independent governing board (The Regents) are appointed by the governor and approved by the state Senate. Various University programs and capital outlay projects are funded through appropriations from the state's annual Budget Act. The University's financial statements are discretely presented in the state's general-purpose financial statements as a component unit. Additionally, the University's consolidated financial statements, including 10 campuses, five medical centers, a statewide agricultural extension program, the University of California Retirement System and certain operational results of three major Department of Energy laboratories are subjected to an independent annual audit.

The Los Angeles campus of the University of California was founded in 1919 and is financially the largest campus in the 10-campus University of California system. The financial statements included in this annual report present the combined activities of the Los Angeles campus, including the UCLA Medical Center of the University of California. The accounts of the Los Angeles campus are subject to limited-scope procedures as a part of the annual audit of the financial statements of the entire University of California. The financial statements for the Los Angeles campus have not been individually audited.

ASUCLA's financial data for the fiscal year ended June 30, 2003, have been included in the financial statements in order to reflect total financial activity of the UCLA campus. ASUCLA conducts activities on the UCLA campus pursuant to the Statement of Understanding of ASUCLA's Relationships with the University, dated June 28, 1974.

The UCLA Foundation is a nonprofit, public-benefit corporation organized for the purpose of accepting and administering the full range of private contributions for the campus. The financial activities of the separately incorporated foundation are not reflected within the campus' records until such time as gifts are transferred from the foundation to the campus.

SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the UCLA campus have been prepared in accordance with generally accepted accounting principles, including all applicable effective statements of the Governmental Accounting Standards Board (GASB) and all statements of the Financial Accounting Standards Board through November 30, 1989, using the economic resources measurement focus and the accrual basis of accounting.

As of July 1, 2001, GASB Statement No. 35, *Basic Financial Statements — and Management's Discussion and Analysis — for Public Colleges and Universities,* an amendment of Statement No. 34, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments,* was adopted by the University, along with GASB Statement No. 37, *Basic Financial Statements — and Management's Discussion and Analysis — for State and Local Governments: Omnibus,* and Statement No. 38, *Certain Financial Statement Note Disclosures*.

The GASB has issued Statement No. 39, *Determining Whether Certain Organizations are Component Units*, effective for years beginning July 1, 2003. Statement No. 39 will require the legally separate, tax-exempt UCLA Foundation to be presented discretely in the University's financial statements.

The significant accounting policies followed by UCLA are summarized as follows.

OTHER ACCOUNTING POLICIES

Cash. The University considers all balances in demand deposit accounts to be cash. All other highly liquid cash equivalents are considered to be short-term investments.

Short-term investments. UCLA participates in a temporary investment pool that is administered by the Office of the President. Income earned on investments is distributed based on average investments in the pool. This pool invests primarily in U.S. Treasury securities, commercial paper and short-term corporate notes with cost approximating market value. These temporary investments are considered cash equivalents for the purposes of the statement of cash flows.

Investments. Investments for endowment monies and other similar funds are primarily administered centrally by the Office of the President and are not reflected on the UCLA local financial statements. These funds consist of endowments, funds functioning as endowment, and annuity and life income funds. Endowments require that the principal be invested in perpetuity, with the income used in accordance with the terms specified by the donor. Funds functioning as endowment are primarily gifts and related gains that the University treats as endowments, with the exception that any portion of these funds may be expended at the University's discretion. Annuity and life income funds are held in trust by the University with the annuity or income paid periodically to designated beneficiaries; principal of these funds vests with the University and payments cease upon the death of the beneficiaries.

Monies are invested by the Treasurer of The Regents and the income transferred to individual campuses annually. A substantial portion of the net assets of the endowment and similar funds participates in a general endowment pool. Each individual fund subscribes to or disposes of units on the basis of the market value per unit at the end of the calendar month within which the transaction takes place. Investments include equities, high-yield equities, bonds and real estate.

Accounts receivable. Accounts receivable include reimbursements due from state and federal sponsors of externally funded research, patient billings, accrued income on investments and other receivables. Other receivables include local government and private grants and contracts, pledges, educational activities, and amounts due from students, employees and faculty for services.

Pledges. Unconditional pledges of private gifts to the campus in the future are recorded as pledges receivable and revenue in the year promised at the present value of expected cash flows. Conditional pledges, including pledges of endowments to be received in future periods, and intentions to pledge are recognized as receivables and revenues when the specified conditions are met.

Notes and mortgages receivable. Loans to students are provided by federal student loan programs and other University sources. Home mortgage loans, primarily to faculty, are provided by the University's Short-Term Investment Pool and other University sources. Mortgage loans provided by the Short-Term Investment Pool are classified as investments, and loans provided by other sources are classified as mortgages receivable in the statement of net assets.

Inventories. Inventories are valued at cost, typically determined using the weighted average method, which is not in excess of net realizable value.

Land, infrastructure, buildings, equipment, libraries and collections. Land, infrastructure, buildings and improvements, equipment, libraries and collections, and special collections are recorded at cost at the date of acquisition, or fair value at the date of donation in the case of gifts. Capital leases are recorded at the present value of future minimal lease payments. Significant additions, replacements, major repairs and renovations are generally capitalized if the cost exceeds $35,000 and if they have a useful life of more than one year. Minor renovations are charged to operations.

Depreciation is calculated using the straight-line method over the estimated economic life of the asset. Leasehold improvements are amortized using the straight-line method over the life of the applicable lease or the economic life of the asset, whichever is shorter.

Estimated economic lives are generally as follows:

Infrastructure	25 years
Buildings and improvements	15-33 years
Equipment	2-20 years
Computer software	3-7 years
Library books and material	15 years

Capital assets acquired through federal grants and contracts where the federal government retains a reversionary interest are capitalized and depreciated.

Inexhaustible capital assets — such as land or special collections that are protected, preserved and held for public exhibition, education or research, including art, museum, scientific and rare book collections — are not depreciated.

Interest on borrowings to finance facilities is capitalized during construction, net of any investment income earned during the temporary investment of project-related borrowings.

Deferred revenue. Deferred revenue primarily includes amounts received from grant and contract sponsors that have not been earned under the terms of the agreement and other revenue billed in advance of the event, such as student tuition and fees and fees for housing and dining services.

Federal refundable loans. Certain loans to students are administered by the campus with funding primarily supported by the federal government. The University's statement of net assets includes both the notes receivable and the related federal refundable loan liability representing federal capital contributions owed upon termination of the program.

Net assets. Net assets are classified for accounting and reporting purposes into the following categories:

Invested in capital assets, net of related debt. This category includes all of the campus' capital assets, net of accumulated depreciation, reduced by outstanding principal balances of debt attributable to the acquisition, construction or improvement of those assets.

Restricted. The campus classifies net assets resulting from transactions with purpose restrictions as restricted net assets until the specific resources are used for the required purpose or for as long as the provider requires the resources to remain intact.

Nonexpendable. Net assets subject to externally imposed restrictions that must be retained in perpetuity by the University are classified as nonexpendable net assets. Such assets include the University's

permanent endowment funds. Because the Office of the President administers these funds, UCLA's local financial statements do not reflect balances for nonexpendable assets.

Expendable. Net assets whose use by the campus is subject to externally imposed restrictions that can be fulfilled by actions of the University pursuant to those restrictions or that expire by the passage of time are classified as expendable net assets.

Unrestricted. Net assets that are neither restricted nor invested in capital assets, net of related debt, are classified as unrestricted net assets. Unrestricted net assets may be designated for specific purposes by management or The Regents. Substantially all unrestricted net assets are allocated for academic and research initiatives or programs, or for capital programs.

Revenues and expenses. Operating revenues includes receipts from student tuition and fees, grants and contracts for specific operating activities, and sales and services from medical centers, educational activities and auxiliary enterprises. Operating expenses incurred in conducting the programs and services of the UCLA campus and medical centers are presented in the statement of revenues, expenses and changes in net assets as operating activities.

In accordance with GASB Statement No. 35, certain significant revenues relied upon and budgeted for fundamental operational support of the core instructional mission of the campus are mandated to be recorded as nonoperating revenues, including state educational appropriations, private gifts and investment income.

Nonoperating revenues and expenses include state educational appropriations (for the support of UCLA operating expenses), state financing appropriations, private gifts for other than capital purposes, investment income, net unrealized appreciation or depreciation in the fair value of investments, interest expense and gain or loss on the disposal of capital assets.

State capital appropriations, and capital gifts and grants are classified as other changes in net assets.

Student tuition and fees. Substantially all of the student tuition and fees provide for current operations of the campus. A small portion of the student fees, reported as capital gifts and grants, is required for debt service associated with student union and recreational centers. Certain waivers of student tuition and fees considered to be scholarship allowances are recorded as an offset to revenue.

State appropriations. The State of California provides appropriations to the University, which are allocated to the campuses on an annual basis. State educational appropriations are recognized as nonoperating revenue; however, the related expenses are incurred to support either educational operations or other specific operating purposes. State appropriations for capital projects are recorded as revenue under other changes in net assets when the related expenditures are incurred.

Grant and contract revenue. UCLA receives grant and contract revenue from governmental and private sources. The campus recognizes revenue associated with the direct costs of sponsored programs as the related expenditures are incurred. Recovery of facilities and administrative costs of federally sponsored programs is at cost reimbursement rates negotiated with the University's federal cognizant agency, the Department of Health and Human Services. For the fiscal year ended June 30, 2003, the facilities and administrative cost recovery totaled $136.4 million, $114.4 million from federally sponsored programs and $22 million from other sponsors. For the year ended June 30, 2002, the facilities and administrative cost recovery totaled $120.7 million, $99.8 million from federally sponsored programs and $20.9 million from other sponsors.

The majority of the recovery of facilities and administrative costs from contract and grant activity are transferred to the Office of the President as part of the closing process and then reallocated at a designated rate to the campus in the next fiscal year. The amount transferred for 2003 was $133.57 million and $117.3 million for 2002.

Medical center revenue. Medical center revenue is reported at the estimated net realizable amounts from patients and third-party payers, including Medicare, Medi-Cal and others, for services rendered, as well as estimated retroactive adjustments under reimbursement agreements with third-party payers. Laws and regulations governing Medicare and Medi-Cal are complex and subject to interpretation. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined. It is reasonably possible that estimated amounts accrued could change significantly based upon settlement or as additional information becomes available.

Scholarship allowances. The campus recognizes certain scholarship allowances, which include both financial aid and fee waivers, as the difference between the stated charge for tuition and fees, housing and dining charges, recreational center fees, etc., and the amount that is paid by the student or by third parties on behalf of the student.

Payments of financial aid made directly to students are classified as scholarship and fellowship expenses.

Scholarship allowances in the following amounts are recorded as an offset to revenues for the years ended June 30, 2003 and 2002 *(dollars in thousands)*:

	2003	2002
Student tuition and fees	$ 59,488	$ 53,265
Sales and services of auxiliary enterprises	10,843	11,448
Scholarship allowances	$ 70,331	$ 64,713

Compensated absences. UCLA accrues annual leave for employees at rates based upon length of service and job classification, and compensatory time based upon job classification and hours worked.

Endowment spending. Under provisions of California law, the Uniform Management of Institutional Funds Act allows for investment income, as well as a portion of realized and unrealized gains, to be expended for the operational requirements of University programs.

Tax exemption. UCLA is qualified as a tax-exempt organization under the provisions of Section 501(c)(3) of the Internal Revenue Code and is exempt from federal and state income taxes on related income.

Use of estimates. The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements, as well as the reported amounts of revenues and expenditures during the reporting period. Actual amounts could differ from those estimates.

Comparative information. 2002 financial information is included as comparative values to the 2003 presentation.

1. CASH

The University maintains centralized management for substantially all of its cash. Cash in demand deposit accounts is minimized by sweeping available cash balances into investment accounts on a daily basis. At June 30, 2003 and 2002, the carrying amount of UCLA's equity in the Treasurer's investment, transferred to the Treasurer's Office as part of the University's investment, was $782.5 million and $797.3 million, respectively, compared with bank balances of $16.7 million and $21.9 million, respectively. The timing of deposits in transit, varying from year to year, is the primary difference.

2. INVESTMENTS HELD BY TRUSTEES

UCLA has entered into agreements with trustees to maintain trusts for long-term debt requirements. All investments held by trustees are insured, registered or held by the campus' trustee or custodial bank, as fiduciary for the bondholder or as agent for the University.

The trust agreements for long-term debt permit trustees to invest in U.S. and state government or agency obligations, commercial paper or other corporate obligations meeting certain credit rating requirements.

Noncurrent investments held by trustees are for future payment of principal and interest in accordance with various indenture and other long-term debt requirements. The fair value of these investments was $189.2 million and $18.6 million at June 30, 2003 and 2002, respectively. New state lease revenue bonds being held in trust are the majority contributors to this increase.

UCLA's deposits into the trusts, or receipts from the trust, are classified as a capital and related financing activity in the statement of cash flows as it is related to long-term debt requirements. Investment transactions initiated by trustees in conjunction with the management of the trust assets and payments from the trust to third parties are not included in the campus' statement of cash flows.

3. ACCOUNTS RECEIVABLE

Accounts receivable and the allowances for uncollectible amounts at June 30, 2003 and 2002 are as follows *(dollars in thousands)*:

	STATE & FEDERAL GOVERNMENT	MEDICAL CENTERS	OTHER	TOTAL
At June 30, 2003				
Accounts receivable	$ 80,987	$ 233,331	$ 133,225	$ 447,543
Allowance for uncollectible amounts	(261)	(49,128)	(7,218)	(56,607)
Accounts receivable, net	$ 80,726	$ 184,203	$ 126,007	$ 390,936
At June 30, 2002				
Accounts receivable	$ 78,047	$ 236,396	$ 142,333	$ 456,776
Allowance for uncollectible amounts	(178)	(52,623)	(8,072)	(60,873)
Accounts receivable, net	$ 77,869	$ 183,773	$ 134,261	$ 395,903

(Other accounts receivable are primarily related to private grants and contracts, physicians' professional fees, pledges, investment sales, tuition and fees, and auxiliary enterprises.)

4. NOTES AND MORTGAGES RECEIVABLE

Notes and mortgages receivable at June 30, 2003 and 2002, along with allowances for uncollectible amounts, are as follows *(dollars in thousands)*:

	CURRENT	NONCURRENT NOTES	NONCURRENT MORTGAGES	TOTAL
At June 30, 2003				
Notes and mortgages receivable	$ 10,908	$ 55,569	$ 13,443	$ 79,920
Allowance for uncollectible amounts	(578)	(1,243)	(251)	(2,072)
Notes and mortgages receivable, net	$ 10,330	$ 54,326	$ 13,191	$ 77,848
At June 30, 2002				
Notes and mortgages receivable	$ 19,856	$ 47,100	$ 16,382	$ 63,482
Allowance for uncollectible amounts	(946)	(2,172)	(305)	(2,477)
Notes and mortgages receivable, net	$ 18,910	$ 44,928	$ 16,077	$ 61,005

5. LAND, INFRASTRUCTURE, BUILDINGS, EQUIPMENT, LIBRARIES AND COLLECTIONS

The campus' capital asset activity for the years ended June 30, 2003 and 2002, is as follows *(dollars in thousands)*:

	2001	ADDITIONS	DISPOSALS	2002	ADDITIONS	DISPOSALS	2003
ORIGINAL COST							
Land	$ 65,587	$ 6,634	$ (248)	$ 71,973	$ 5,850	$ (285)	$ 77,538
Infrastructure	7,019	-	-	7,019	735	-	7,754
Buildings and improvements	2,356,006	37,833	(8,545)	2,385,294	58,889	(2,868)	2,441,315
Equipment	743,263	86,020	(42,250)	787,033	83,033	(48,619)	821,447
Libraries and collections	403,271	21,045	-	424,316	13,009	-	437,325
Special collections	50,943	1,617	-	52,560	1,149	-	53,709
Construction in progress	315,183	235,863	-	551,046	339,261	-	890,307
Capital assets, at original cost	$ 3,941,272	$ 389,012	$ (51,043)	$ 4,279,241	$ 501,926	$ (51,772)	$ 4,729,395

	2001	DEPRECIATION & AMORTIZATION	DISPOSALS	2002	DEPRECIATION & AMORTIZATION	DISPOSALS	2003
ACCUMULATED DEPRECIATION AND AMORTIZATION							
Infrastructure	$ 4,872	$ 172	$ -	$ 5,044	$ 200	$ -	$ 5,244
Buildings and improvements	892,391	73,641	(4,955)	961,077	74,391	(1,097)	1,034,371
Equipment	444,204	61,614	(35,926)	469,892	74,410	(36,513)	507,789
Libraries and collections	285,688	16,488	-	302,176	14,947	-	317,123
Accumulated depreciation and amortization	$ 1,627,155	$ 151,915	$ (40,881)	$ 1,738,189	$ 163,948	$ (37,610)	$ 1,864,527
Capital assets, net	$ 2,314,117			$ 2,541,052			$ 2,864,868

6. DEBT

The University may finance the construction, renovation and acquisition of certain facilities and equipment through the issuance of debt obligations. Commercial paper provides for interim financing, which is accounted for on a systemwide basis. Long-term financing includes revenue bonds, certificates of participation, mortgages and other borrowings, and capital lease obligations.

UCLA's outstanding debt at June 30, 2003 and 2002, is as follows *(dollars in thousands)*:

	INTEREST RATES	MATURITY YEARS	2003	2002
LONG-TERM FINANCING				
Hospital Revenue Bonds Series 1994 & 2002	4.55 – 5.5 %	2003 – 2020	$ 135,670	$ 141,150
Los Angeles Central Chiller/Cogeneration certificates of participation	4.6 – 10.0 %	2003 – 2021	169,220	174,090
Mortgages and other borrowings	2.23 – 7 %	2003 – 2008	11,422	7,918
Capital lease obligations	4.75 – 11 %	2003 – 2008	29,729	9,866
Capital lease obligation – state lease revenue bonds	2.4 – 5 %	2003 – 2022	173,005	-
Total long-term outstanding debt			$ 519,046	$ 333,024

Outstanding Debt Activity

Activity with respect to the campus' current and noncurrent debt for the years ended June 30, 2003 and 2002, is as follows *(dollars in thousands)*:

	REVENUE BONDS	CERTIFICATES OF PARTICIPATION	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASE OBLIGATIONS	TOTAL
Year Ended June 30, 2003					
Current portion at June 30, 2002	$ 5,480	$ 4,870	$ 119	$ 3,295	$ 13,764
Reclassification from noncurrent	5,815	5,300	4,711	13,528	29,354
Principal payments	(5,480)	(4,870)	(4,802)	(3,849)	(19,001)
Current portion at June 30, 2003	5,815	5,300	28	12,974	24,117
Noncurrent portion at June 30, 2002	135,670	169,220	7,799	6,570	319,259
New obligations	-	-	8,306	196,718	205,024
Reclassification to current	(5,815)	(5,300)	(4,711)	(13,528)	(29,354)
Noncurrent portion at June 30, 2003	129,855	163,920	11,394	189,760	494,929
Total	$ 135,670	$ 169,220	$ 11,422	$ 202,734	$ 519,046
Year Ended June 30, 2002					
Current portion at June 30, 2001	$ 4,840	$ 4,645	$ 110	$ 2,219	$ 11,814
Reclassification from noncurrent	5,480	4,870	122	4,297	14,769
Principal payments	(4,840)	(4,645)	(113)	(3,221)	(12,819)
Current portion at June 30, 2002	5,480	4,870	119	3,295	13,764
Noncurrent portion at June 30, 2001	108,730	174,090	4,238	3,863	290,921
New obligations	32,420	-	3,683	7,004	43,107
Reclassification to current	(5,480)	(4,870)	(122)	(4,297)	(14,769)
Noncurrent portion at June 30, 2002	135,670	169,220	7,799	6,570	319,259
Total	$ 141,150	$ 174,090	$ 7,918	$ 9,866	$ 333,024

Revenue Bonds

Revenue bonds have financed various auxiliary, administrative, academic and research facilities of the University. They have annual principal and semiannual interest payments, and serial and term maturities; they contain sinking fund requirements and may have optional redemption provisions.

Revenue bonds for medical centers and auxiliary enterprises are collateralized by a pledge of the net revenues generated by the enterprises. Revenue bonds for research facilities and certain revenue bonds for administrative and academic facilities are collateralized by a pledge of the University's share of facilities and administrative rate recoveries received on federal research grants and contracts performed by the University. Revenue bonds are not collateralized by any encumbrance, mortgage or other pledge of property, except pledged revenues, and do not constitute general obligations of The Regents.

The Multiple Purpose Projects Revenue Bond indentures require the University to achieve net revenues, after expenses and requirements for senior lien indentures, equal to 1.25 times debt service and to maintain certain other financial covenants. The Hospital Revenue Bonds require the University to achieve net revenues of 1.1 times to 1.2 times debt services (depending on the indenture); set limitations on encumbrances, indebtedness, disposition of assets and transfer services; and maintain certain other financial covenants. The Multiple Purpose Projects Revenue Bond and Hospital Revenue Bond indentures require the University to use the facilities in a way that will not cause the interest on the bonds to be included in the gross income of the holders of the bonds for federal tax purposes.

Certificates of Participation

Certificates of participation have been issued to the Los Angeles Central Chiller/Cogeneration facility. The certificates are collateralized by buildings and equipment.

Mortgages and Other Borrowings

Mortgages and other borrowings consist of contractual obligations resulting from the acquisition of land or buildings and the construction and renovation of certain facilities. The mortgages are collateralized by real property.

As part of the University, UCLA may use uncollateralized bank lines of credit with commercial banks to supplement commercial paper to provide interim financing for buildings and equipment. Line-of-credit commitments, with various expiration dates through June 30, 2011, totaled $28 million at June 30, 2003. Outstanding borrowing under these bank lines totaled $11.4 million and $7.92 million at June 30, 2003 and 2002, respectively, and is included in mortgages and other borrowings.

Capital Leases

Capital leases entered into with other lessors, primarily for equipment, totaled $202.7 million and $9.86 million for the years ended June 30, 2003 and 2002, respectively. The increase directly relates to the $173 million in State Lease Revenue Bonds that were issued in October 2002 to finance the UCLA replacement hospitals in Santa Monica and Westwood; the bonds mature in October 2022.

Future Debt Service

Future debt service payments for each of the five fiscal years subsequent to June 30, 2003, and thereafter are as follows *(dollars in thousands)*:

Year Ending June 30	REVENUE BONDS	CERTIFICATES OF PARTICIPATION	MORTGAGES AND OTHER BORROWINGS	CAPITAL LEASES STATE	CAPITAL LEASES OTHER	TOTAL PAYMENTS	PRINCIPAL	INTEREST
2004	$ 12,637	$ 14,539	$ 36	$ 26,165	$ 8,055	$ 61,432	$ 28,306	$ 33,126
2005	12,605	14,522	41	26,122	7,583	60,873	28,931	31,942
2006	12,653	14,515	44	26,164	6,239	59,615	28,752	30,863
2007	12,631	14,501	11,312	26,156	5,310	69,910	40,129	29,781
2008	12,587	14,489	12	26,181	4,388	57,657	29,033	28,624
2009-2013	84,122	72,254	-	130,567	-	286,943	182,171	104,772
2014-2018	35,421	71,705	-	114,461	-	221,587	163,254	58,333
2019-2023	6,707	56,886	-	88,309	-	151,902	135,322	16,580
2024-2028	-	-	-	-	-	-	-	-
2029-2033	-	-	-	-	-	-	-	-
Total future debt service	189,363	273,411	11,445	464,125	31,575	969,919	$ 635,898	$ 334,021
Less interest component of future payments	53,693	104,191	22	174,269	1,846	334,021		
Principal portion of future payments	$ 135,670	$ 169,220	$ 11,423	$ 289,856	$ 29,729	$ 635,898		

7. SELF-INSURANCE AND OTHER LIABILITIES

UCLA's other liabilities, primarily employee leave and other compensated absences with similar characteristics and accrued interest, at June 30, 2003 and 2002, are as follows *(dollars in thousands)*:

	2003 CURRENT	2003 NONCURRENT	2002 CURRENT	2002 NONCURRENT
Other liabilities:				
Compensated absences	$ 41,318	$ 78,482	$ 37,803	$ 73,885
Accrued interest	4,258	-	2,279	-
Other	22,650	-	13,158	-
	$ 68,226	$ 78,482	$ 53,240	$ 73,885

Self Insurance Programs

The University is self-insured for medical malpractice, workers' compensation, employee health care and general liability claims. These risks are subject to various claim and aggregate limits, with excess liability coverage provided by an independent insurer. Liabilities are recorded on a systemwide basis when it is probable that a loss has occurred and the amount of the loss can be reasonably estimated. Each campus funds the self-insurance liability through predetermined rates applied to payroll and other expenses. These amounts are reflected as operating expenses in UCLA's statement of revenues, expenses and changes in net assets. UCLA's financial statements do not reflect any liability amounts for self-insurance claims as these estimated liabilities are recorded on a systemwide basis.

Other Noncurrent Liabilities

Activity with respect to other noncurrent liabilities for the years ended June 30, 2003 and 2002, is as follows *(dollars in thousands)*:

	COMPENSATED ABSENCES
Year Ended June 30, 2003	
Liabilities at June 30, 2002	$ 73,885
New obligations	7,404
Reclassification to current	(2,807)
Liabilities at June 30, 2003	$ 78,482
Year Ended June 30, 2002	
Liabilities at June 30, 2001	$ 69,105
New obligations	8,120
Reclassification to current	(3,340)
Liabilities at June 30, 2002	$ 73,885

Payments are generally made from a variety of revenue sources, including state educational appropriations, grants and contracts, auxiliary enterprises and endowment income, or other revenue sources that support the employee's salary.

8. ENDOWMENTS AND FOUNDATION GIFTS

The Regents' Endowments

Endowments are administered either by the University or by campus foundations. The financial activities of the separately incorporated campus foundations are not included in the University's financial statements until such time as gifts are transferred from the campus foundations to the University.

The endowments held by The Regents are administered on a systemwide basis, and related investments are not reflected on UCLA's separate financial statements.

The portion of investment returns earned on endowments held by The Regents and distributed each year to support current operations is based upon a rate (stated in dollars per share) that is approved by The Regents. The total distribution from endowments held by The Regents to UCLA was $28.47 and $26.85 million for the years ended June 30, 2003 and 2002, respectively.

Campus Foundation

Under University policies approved by The Regents, each individual campus may establish a separate foundation to provide valuable assistance in fundraising, public outreach and other support for the missions of the campus and the University. Although independent boards govern the UCLA Foundation, its assets are dedicated for the benefit of UCLA.

During the years ended June 30, 2003 and 2002, gifts of $79.9 and $77.2 million, respectively, were transferred to UCLA from the UCLA Foundation. At June 30, 2003, UCLA Foundation's net assets were $841.6 million, but they are not included in UCLA's financial statements under generally accepted accounting principles.

9. OPERATING EXPENSES BY FUNCTION

Operating expenses, by functional classification, for the years ended June 30, 2003 and 2002, are as follows *(dollars in thousands)*:

	2003	2002
Instruction	$ 762,835	$ 725,706
Research	536,878	475,966
Public service	45,313	55,126
Academic support	250,806	255,907
Student services	54,998	55,364
Institutional support	104,282	92,482
Operations and maintenance of plant	67,750	67,090
Student financial aid	75,865	71,020
Medical centers	830,695	770,134
Auxiliary enterprises	181,009	174,421
Depreciation	163,949	151,914
Other	7,249	10,258
Total operating expenses	$ 3,081,629	$ 2,905,388

10. THE RETIREMENT PLAN

Most University employees participate in the University of California Retirement System (UCRS). The UCRS consists of a single-employer defined benefit plan funded by University and employee contributions, a defined benefit plan for University employees who elected early retirement under the Public Employees Retirement System Voluntary Early Retirement Incentive Program (PERS-VERIP) and two defined contribution plans with several investment portfolios funded by employee non-elective and elective contributions. The Board of Regents is the trustee for all UCRS and PERS-VERIP funds. Accordingly, these funds are separately identified in the systemwide annual financial report.

11. COMMITMENTS AND CONTINGENCIES

Commitments

Amounts committed but unexpended for construction projects totaled $1,024 million and $916.5 million at June 30, 2003 and 2002, respectively.

UCLA leases land, buildings and equipment under agreements recorded as operating leases. Operating lease expenses for the years ended June 30, 2003 and 2002, were $41.7 million and $37.5 million, respectively. The terms of operating leases extend through the year ending 2023.

Future minimum payments on operating leases with initial or remaining noncancelable terms in excess of one year are as follows *(dollars in thousands)*:

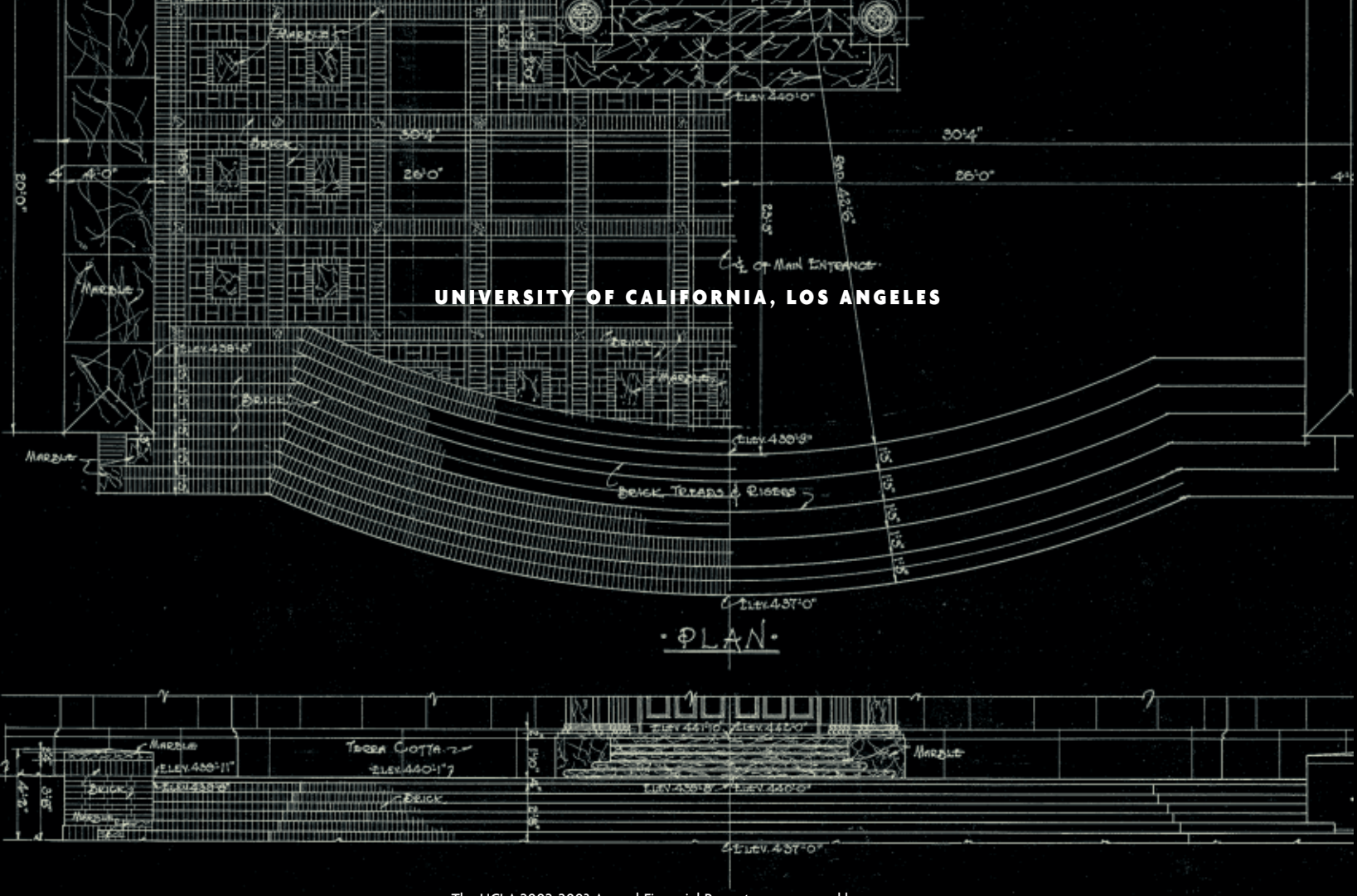
YEAR ENDING JUNE 30	MINIMUM ANNUAL LEASE PAYMENTS
2004	$ 21,826
2005	19,484
2006	16,778
2007	13,654
2008	11,003
2009-2013	26,301
2014-2018	227
2019-2023	50
2024-2028	-
2029-2033	-
2034-2038	-
2039-2043	-
Total	$ 109,324

Contingencies

Substantial amounts are received and expended by the University, including its medical centers, under federal and state programs and are subject to audit by cognizant governmental agencies. This funding relates to research, student aid, medical center operations and other programs. University management believes that any liabilities arising from such audits will not have a material effect on the University's or UCLA's separate financial positions.

The University is contingently liable in connection with certain other claims and contracts, including those currently in litigation, arising in the normal course of its activities. Although there are inherent uncertainties in any litigation, University management and general counsel are of the opinion that the outcome of such matters will not have a material effect on the University's or UCLA's separate financial positions.

Art Director, Wanda D. Maioresco Decca. Photography, Janet Regier. Charts, Valentin Sahleanu.



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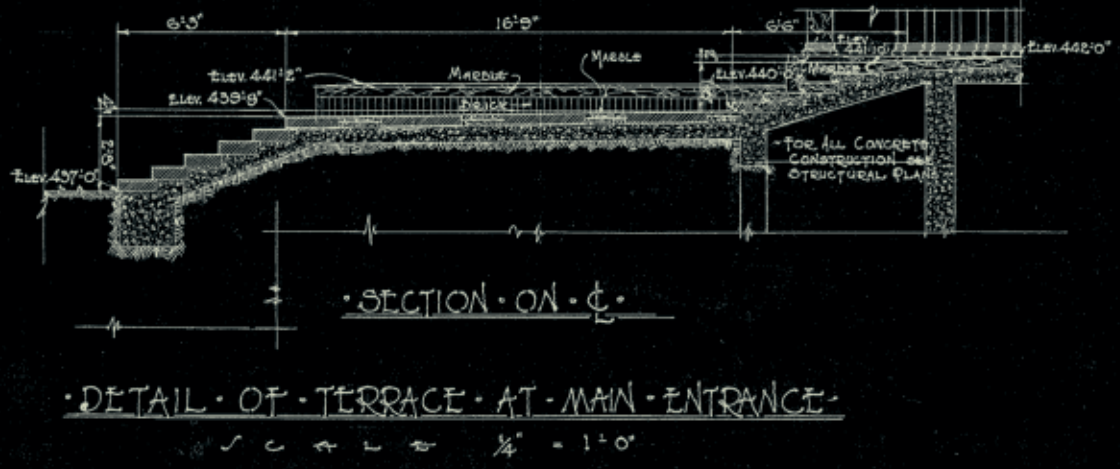

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